

Message Text

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ACTION EA-14

INFO OCT-01 EUR-25 IO-12 ADP-00 AID-20 CIAE-00 COME-00

EB-11 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-15

STR-08 CEA-02 PA-03 PRS-01 USIE-00 L-03 H-02 TAR-02

AGR-20 FTC-01 SSO-00 NSCE-00 INRE-00 RSR-01 /193 W

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O R 260910 Z APR 73

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC IMMEDIATE 3433

INFO USMISSION EC BRUSSELS

USMISSION GENEVA

AMEMBASSY LONDON

USMISSION OECD PARIS

AMEMBASSY MANILA

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MANILA FOR VOLKER

E. O. 11652: N/ A

TAGS: EFIN, EGEN, JA

SUBJECT: NEW GOJ CAPITAL LIBERALIZATION POLICY

REF: TOKYO 5089

SUMMARY. IN DISCUSSIONS WITH EMBASSY, GOJ OFFICIALS HAVE STRESSED IMPORTANCE OF CHANGE IN GOJ POLICY TO 100 PERCENT CAPITAL LIBERALIZATION, TO EQUALITY OF TREATMENT FOR NEW AND EXISTING ENTERPRISES AND TO LIMITED NUMBER OF EXCEPTIONS. DETAILS ON NATURE AND EXTENT OF GOVERNMENT CONTROLS HAVE NOT BEEN FULLY WORKED OUT. END SUMMARY.

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1. EMBASSY HAS DISCUSSED RECOMMENDATIONS OF FOREIGN INVESTMENT COUNCIL (REFTEL) IN PAST TWO DAYS WITH VARIETY OF GOJ OFFICIALS, NOTABLY IN BRIEFING OF ECON/ COUNS BY KURIHARA, DIRECTOR, INDUSTRIAL FINANCE DIVISION, INDUSTRIAL POLICY BUREAU, MITI, AND IN LUNCHEON MEETING OF FONOFF DEPUTY VICE MINISTER TSURUMI AND UKAWA (HEAD, SECOND NORTH AMERICA DIVISION, FONOFF) WITH AMBASSADOR AND ECON/ COUNS.

2. MAIN POINTS EMPHASIZED BY GOJ OFFICIALS AS FOLLOWS:

(A) OF GREATEST IMPORTANCE IS FACT THAT GOJ HAS CHANGED FROM PRINCIPLE OF 50 PERCENT LIBERALIZATION TO ADOPTION OF 100 PERCENT LIBERALIZATION. THIS DECISION WHICH IS OUTGROWTH OF THIRD YEN DEFENSE PLAN OF OCTOBER 20, 1972, CONSTITUTES ACCEPTANCE OF POLICY COMPARABLE TO THAT OF OTHER OECD MEMBERS.

(B) LIBERALIZATION WILL RELATE EQUALLY TO NEW AND EXISTING ENTERPRISES AS LONG AS MANAGEMENT OF LATTER ARE IN AGREEMENT WITH TAKE- OVER. IF MANAGEMENT NOT IN AGREEMENT, HOWEVER, EXISTING LIMITATIONS ON FOREIGN PARTICIPATION WILL REMAIN IN EFFECT.

(C) LIST OF EXCEPTIONS TO PRINCIPLE OF 100 PERCENT LIBERALIZATION IS SMALL: NUMBER OF CATEGORIES REQUIRING CASE- BY- CASE APPROVAL REDUCED FROM SEVEN TO FIVE AND NUMBER OF CATEGORIES OF OTHER EXEMPTIONS NOT ONLY SMALL (17) BUT ALSO WILL BE ELIMINATED WITHIN THREE YEARS.

3. TSURUMI STRESSED TO THE AMBASSADOR THAT RECOMMENDATIONS OF COUNCIL WERE RESULT OF STRENOUS EFFORTS BY MANY PEOPLE IN JAPAN OVER CONSIDERABLE PERIOD OF TIME AND THAT PRIME MINISTER PERSONALLY HAD PLAYED SIGNIFICANT ROLE. IN ADDITION, MOF OFFICIALS TOLD FINATT THEY WERE PLEASED WITH RESULTS ACHIEVED AT INSISTENCE OF MINFIN AICHII. WHILE NOTING SUPPORT FROM OFFICIALS IN OTHER MINISTRIES, THEY CHARACTERIZED EFFORT AS LONG, HARD STRUGGLE, ESPECIALLY AGAINST BUSINESS RELUCTANCE FOR CHANGE.

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4. QUESTION OF PROCEDURES AND EXTENT/ NATURE OF GOVERNMENT CONTROLS APPARENTLY HAVE NOT BEEN FULLY WORKED OUT. APPLICATIONS FOR INVESTMENT IN LIBERALIZED INDUSTRIES WILL BE MADE INITIALLY AT BANK OF JAPAN, AS AT PRESENT. APPLICATIONS WILL BE REFERRED TO APPROPRIATE MINISTRY -- IF FOR NO OTHER REASON THAN

TO VERIFY THAT PROPOSED INVESTMENT DOES IN FACT FALL UNDER LIBERALIZED CATEGORY -- BUT APPROVAL WILL APPARENTLY BE AUTOMATIC FOR LIBERALIZED INDUSTRIES. RE CONTROLS HITHERTO EXERCISED BY GOJ OVER SCOPE OF OPERATIONS, MARKET SHARE, ETC., IT APPEARS THAT PRINCIPLE ESTABLISHED THAT NO SUCH CONTROLS WILL BE EXERCISED. HOWEVER, MITI OFFICIALS INDICATED THAT GOVERNMENT WOULD EXPECT FOREIGN INVESTORS TO COMPLY NOT ONLY WITH LAWS AND REGULATIONS BUT ALSO WITH LOCAL CUSTOMS AND PROCEDURES.

5. IN CHOICE OF JOINT VENTURE PARTNERS, FOR INDUSTRIES WHERE FOREIGN OWNERSHIP RESTRICTIONS STILL APPLY, JOINT VENTURE PARTNER MUST BE IN SAME INDUSTRY, AS UNDER PRESENT REGULATIONS. HOWEVER, FOR INDUSTRIES WHERE 100 PERCENT FOREIGN OWNERSHIP IS PERMITTED, FOREIGN FIRM MAY, IF IT WISHES, ENTER INTO JOINT PARTNERSHIP WITH JAPANESE FIRM IN ANY INDUSTRY WHICH ALSO 100 PERCENT LIBERALIZED. THUS, IN LIBERALIZED INDUSTRIES, FOREIGN INVESTORS MAY SEEK OUT JOINT VENTURE PARTNER OTHER THAN LOCAL COMPETITOR.

6. EMBASSY'S INITIAL ASSESSMENT IS THAT RECOMMENDATIONS (WHICH EXPECTED TO BE ADOPTED BY CABINET APRIL 27) REPRESENT MAJOR STEP FORWARD AS REGARDS BOTH ACCEPTANCE OF 100 PERCENT PRINCIPLE AND RELATIVELY SMALL LIST OF EXCEPTIONS WITH TIMETABLE FOR FURTHER REDUCTIONS. WHILE WE BELIEVE IT CLEAR INTENTION OF TOP- LEVEL OFFICIALS TO LIMIT INFORMAL AND OTHER CONTROLS, IN ALL PROBABILITY CHANGE IN ATTITUDE AND PRACTISES WILL TAKE SOME TIME. EMBASSY WILL FOLLOW UP IN SEEKING DETAILS AND CLARIFICATIONS ON THIS SUBJECT, AND IT SUGGESTS SUBJECT MIGHT ALSO BE RAISED AT MAY 7 DISCUSSIONS.
INGERSOLL

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*** Current Handling Restrictions *** n/a

*** Current Classification *** LIMITED OFFICIAL USE

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 26 APR 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973TOKYO05174
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: n/a
From: TOKYO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730455/aaaajaxu.tel
Line Count: 149
Locator: TEXT ON-LINE
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 73 TOKYO 5089
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 07 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07-Aug-2001 by worrelsw>; APPROVED <31-Oct-2001 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> srp 980206
Subject: NEW GOJ CAPITAL LIBERALIZATION POLICY
TAGS: EFIN, EGEN, JA
To: EA
STATE INFO EC BRUSSELS
GENEVA
LONDON
MULTIPLE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

